

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name OSCODA-WURTSMITH AIRPORT AUTHORITY	County IOSCO
Audit Date 09/30/2004	Opinion Date 11/09/2004	Date Accountant Report Submitted to State: 12/22/2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature 		Digitally signed by Stephenson, Gracik and Co., P.C. DN: cn=Stephenson, Gracik and Co., P.C., c=US Date: 2004.12.12 09:52:28 -0500 Reason: I am approving this document	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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OSCODA-WURTSMITH AIRPORT AUTHORITY
IOSCO COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED SEPTEMBER 30, 2004

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AUDITORS' REPORT

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Herman A Bertuleit, CPA

November 9, 2004

Independent Auditors' Report

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

We have audited the accompanying financial statements of the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of and for the year ended September 30, 2004, which collectively comprise the Oscoda-Wurtsmith Airport Authority's basic financial statements, as listed in the index. These financial statements are the responsibility of the Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the business-type activities of the Oscoda-Wurtsmith Airport Authority, Iosco County, Michigan, as of September 30, 2004, and the changes in financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2004, on our consideration of the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Oscoda-Wurtsmith Airport Authority has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of September 30, 2004.

The management's discussion and analysis information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.



MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the **Oscoda-Wurtsmith Airport Authority**, (the Authority) we offer readers of the Authority's financial statements this narrative overview and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2004. This Analysis, a requirement of Governmental Accounting Standards Board Statement 34 (GASB 34) omits certain comparative data that will be available in future years.

Financial Highlights

- The Authority's assets exceeded its liabilities by \$8,081,249 (*net assets*) for the fiscal year reported. Of this amount, \$828,134 (*unrestricted net assets*) represents the portion available for spending.
- The Authority's total net assets increased by \$586,845 or 7.8% over the course of the year's operations. This increase was primarily due to the capital contributions paid by the Michigan Department of Transportation.
- The Authority's operating expenses in fiscal year 2003/2004 were \$125,258 higher than fiscal year 2002/2003 due to an increase in professional services. Ninety-five percent of the Instrument Landing System (ILS) was paid for directly by the Michigan Department of Transportation and the ILS will be turned over to the Federal Aviation Administration upon completion. This payment was expensed through professional services.
- The Authority's revenues in fiscal year 2003/2004 were \$27,392 less than fiscal year 2002/2003 due to a reduction in miscellaneous income. This reduction was due to the receipt of \$50,000 reimbursement from the Authority's insurance company in fiscal year 2002/2003.
- The Authority incurred a loss on disposal of fixed assets of \$113,986 in the current year due to the disposal of various furniture, fixture and equipment items during the year. The loss represents the book value of the fixed assets.

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report and the basic financial statements of the Authority. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the Authority report information of the Authority using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The Statement of Net Assets includes all of the Authority's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Authority creditors (liabilities). It also provides the basis for evaluating the capital structure of the Authority and assessing the liquidity and financial flexibility of the Authority.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Assets. This statement measures the success of the Authority's operations over the past year and can be used to determine whether the Authority has successfully recovered all its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, financing and investing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Notes to Financial Statements

The accompanying notes to financial statements provide information essential to a full understanding of the financial statements. The notes to financial statements begin on page 9 of this report.

Analysis of Financial Position:

One of the most important questions asked about the Authority's finances is "Is the Authority as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets, and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the Authority's activities in a way that will help answer this question. These two statements report the net assets of the Authority and the changes in them. One can think of the Authority's net assets-the difference between assets and liabilities-as one way to measure financial health or financial position. Over time, increases or decreases in the Authority's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions and new or changed government legislation.

Because this is the first year of implementation of Government Accounting Standards Board Statement No. 34, which requires this new reporting model, the following tables present only current year data. In future years, when prior-year information is available, comparative analysis will be presented.

Summary of Net Assets:

The following summarizes the net assets of the Oscoda-Wurtsmith Airport Authority at September 30, 2004:

Net Assets Summary

Current Assets	\$ 948,317
Capital Assets – net	<u>7,253,115</u>
Total Assets	<u>8,201,432</u>
Current Liabilities	88,038
Long-Term Liabilities	<u>32,145</u>
Total Liabilities	<u>120,183</u>
Net Assets	
Invested in Capital Assets	7,253,115
Unrestricted	<u>828,134</u>
Total Net Assets	<u>\$ 8,081,249</u>

Capital Asset and Debt Administration

Capital assets. The Authority's investment in capital assets as of September 30, 2004, amounted to \$7,253,115 (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and machinery and equipment. Capital assets for the Authority increased by \$829,866. Leasehold improvement increases include various improvements to airport runways, taxiways, lights, hangars and aprons. Machinery and equipment increase represents purchase of snow removal equipment. Total depreciation expense for this year amounts to \$1,156,545 with ending accumulated depreciation being \$5,317,158.

Capital Assets Summary (Net of depreciation)

Construction in progress	\$ 42,352
Leasehold improvements	6,513,958
Machinery and equipment	<u>696,805</u>
Capital Assets - net	<u>\$ 7,253,115</u>

Additional information on capital assets can be found in Exhibit D – page 14.

Compensated Absences. Compensated absences for the Authority at fiscal year end amount to \$32,145. This is the accumulated amount of benefits set aside for vested employees. Accrued leave benefits are shown as a liability on the financial statements.

Summary of Revenues and Expenses:

The following summarizes the revenues and expenses of the Oscoda-Wurtsmith Airport Authority at September 30, 2004:

Operating revenues	\$ 621,192
Non operating revenues	<u>23,827</u>
Total revenues	<u>645,019</u>
Depreciation expense	1,156,545
Other operating expense	899,354
Nonoperating expense	<u>113,986</u>
Total expenses	<u>2,169,885</u>
Loss before contributions	(1,524,866)
Capital contributions	<u>2,111,711</u>
Change in Net Assets	<u>\$ 586,845</u>

Economic Factors and Next Year's Budget and Rates

The management of the Authority considered many factors in setting the fiscal year 2004/2005 budget. As always, the overriding factor was to keep expenses at or below the amount of revenue. Revenue has varied over the past 10 years of the Authority's existence. The vast majority of revenue comes from the rental of facilities and fees imposed for certain aeronautical activities. In the aftermath of the September 11 terrorist attack there was a drastic reduction in aeronautical activity which impacted the Authority's prime tenant, TIMCO. The 9/11 fallout along with other negative business factors eventually caused TIMCO to cease aircraft overhaul and repair operations at the Oscoda-Wurtsmith Airport resulting in a significant reduction in revenue. As a result the budgets for the years since have shown a decrease in spending. These savings were achieved largely through a reduction in the Authority's workforce.

The most significant expense remains employee related costs. Following are the fixed costs, such as utilities, insurance, and aeronautical navigation aid maintenance. The remaining portion of the budget is prioritized and divided into the operating expense categories such as, supplies and services, maintenance, and capital improvements. In addition, every attempt is made to retain a surplus to cover contingencies and the local share of current and any future grants the Airport may be awarded.

Requests for Information

This financial report is designed to provide a general overview of the Oscoda-Wurtsmith Airport Authority finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Airport Manager, 3961 E. Airport Drive, Oscoda, Michigan 48750.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF NET ASSETS
September 30, 2004

Assets

Current assets:	
Cash and cash equivalents (Note 3)	\$ 443,083
Investments (Note 3)	443,414
Accounts receivable	22,445
Due from state	39,375
Total current assets	<u>948,317</u>
Noncurrent assets:	
Capital assets, net (Note 4)	<u>7,253,115</u>
Total Assets	<u>8,201,432</u>

Liabilities

Current liabilities:	
Accounts payable	42,649
Due to state	22,225
Deferred revenue	6,876
Deposits payable	16,288
Total current liabilities	<u>88,038</u>
Long-term liabilities:	
Compensated absences payable (Note 5)	<u>32,145</u>
Total Liabilities	<u>120,183</u>

Net Assets

Invested in capital assets	7,253,115
Unrestricted	<u>828,134</u>
Total Net Assets	<u>\$ 8,081,249</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF REVENUE, EXPENSES AND
 CHANGES IN NET ASSETS
For the Year Ended September 30, 2004

<u>Operating Revenue</u>	
Landing fees	\$ 1,699
Fuel fees	3,246
Building rental	602,265
Miscellaneous	13,982
Total operating revenue	<u>621,192</u>
<u>Operating Expenses</u>	
Wages, taxes and benefits	287,179
Compliance and training	2,594
Advertising	1,780
Bad debt expense	850
Dues and subscriptions	2,378
Building maintenance	67,983
Field maintenance	57,717
Insurance	46,002
Operating supplies	7,908
Postage	1,643
Professional services	290,243
Radio equipment maintenance	25,310
Travel	5,088
Utilities	68,744
Vehicle maintenance	31,286
Refuse service	2,649
Depreciation	1,156,545
Total operating expenses	<u>2,055,899</u>
Operating loss	<u>(1,434,707)</u>
<u>Non-Operating Revenue (Expenses)</u>	
Interest earned	23,827
Loss on disposal of fixed assets	(113,986)
Total non-operating revenue (expenses)	<u>(90,159)</u>
Loss before contributions	(1,524,866)
Capital contributions	<u>2,111,711</u>
Change in net assets	586,845
Net assets - beginning of year, as restated (Note 2)	<u>7,494,404</u>
Net assets - end of year	<u>\$ 8,081,249</u>

The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

STATEMENT OF CASH FLOWS
For the Year Ended September 30, 2004

Cash Flows From Operating Activities

Cash received from customers	\$ 668,456
Cash paid to suppliers and employees	<u>(664,411)</u>
Net cash provided by operating activities (Note 8)	<u>4,045</u>

Cash Flows From Capital and Related Financing Activities

Acquisition and construction of capital assets	<u>(218,074)</u>
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Cash Flows From Investing Activities

Proceeds from sales and maturities of investments	114,000
Interest on investments	<u>3,331</u>
Net cash received by financing activities	<u>117,331</u>

Net decrease in cash and cash equivalents (96,698)

Cash and cash equivalents - beginning of year (Note 1) 539,781

Cash and cash equivalents - end of year (Note 1) \$ 443,083

Non-Cash Capital and Related Financing Activities

Capital contributions received from the Michigan Department of Transportation grant funds	<u><u>\$ 2,111,711</u></u>
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The accompanying notes to financial statements are an integral part of this statement.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Oscoda-Wurtsmith Airport Authority conform to accounting principles generally accepted in the United States of America (GAAP) applicable to governmental units. The following is a summary of the significant accounting policies.

A. Description of Authority's Operations

The Oscoda-Wurtsmith Airport Authority operates under the supervision and control of a Board of seven members consisting of: the Supervisor for each of the Charter Townships of Oscoda and AuSable and the Township of Greenbush; appointees of the County Board of Commissioners for Iosco and Alcona Counties and two at-large members.

The basic financial statements of the Airport Authority have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The Airport Authority's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Authority exercises oversight responsibility have been included in the reporting entity.

Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

B. Fund Accounting

The Authority uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts.

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Authority's Enterprise Fund reports operations that provide services which are financed primarily by user charges, or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control or other purposes.

C. Basis of Presentation

The Authority's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Authority segregates transactions related to certain Authority functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Authority at a detailed level.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The term measurement focus is used to denote what is being measured and reported in the Authority's operating statement. The Authority is accounted for on the flow of economic resources measurement focus. The fundamental objective of this focus is to measure whether the Authority is better or worse off economically as a result of events and transactions of the period.

The term basis of accounting is used to determine when a transaction or event is recognized on the Authority's operating statement. The Authority uses the full accrual basis of accounting. Under this basis, revenues are recorded when earned and expenses are recorded when incurred, even though actual payment or receipt may not occur until after the period ends.

E. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Authority are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

G. Receivables

Receivables at September 30, 2004, consist of accounts (fees). All receivables are net of estimated uncollectible accounts. Receivables are recognized to the extent the amounts are determined material and substantiated, not only by supporting documentation but also by a reasonable systematic method of determining their existence, completeness, valuation, and collectibility.

The balances consist primarily of charges for airport services due from various customers.

H. Capital Assets

Capital assets are stated at cost. Depreciation has been provided using the straight-line method over the estimated useful life of the assets.

Expenditures for maintenance, repairs and renewals are charged to operations as incurred and betterments are capitalized. The Authority eliminates the cost and related allowances from the accounts for assets sold or retired and resulting gains or losses therefrom are included in operations concurrently. Donated fixed assets are recorded at their fair market values as of the date received.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

I. Capital Contributions

Capital Contributions consists of federal and state contract grants administered by the Michigan Department of Transportation. The federal revenues fall under the Single Audit Scope of the Michigan Department of Transportation.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Authority or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Authority's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Authority, these revenues are charges for services for building rentals and landing and fuel fees. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Board and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For 2004, the Authority has implemented Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements -and Management's Discussion and Analysis -for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; and GASB Statement No. 38, "Certain Financial Statement Note Disclosures".

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (CONTINUED)

A. Change in Accounting Principles (Continued)

GASB Statement No. 34 established new financial reporting standards for state and local governments. This statement requires a significant change in the financial reporting standards for state and local governments including the Management Discussion and Analysis Section, which provides an overall analysis of the financial position and results of operations and conditions that could have a significant effect on the financial position or results of operations.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34, including the Management's Discussion and Analysis. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

B. Restatement of Net Assets

The restatement due to the implementation of the above statements and interpretation had the following effects on the net assets of the Authority as it was previously reported.

Retained Earnings	
September 30, 2003	\$ 1,563,555
Restatement of contributed capital in accordance with GASB Statement No. 33	<u>5,930,849</u>
Net Assets as restated at September 30, 2003	<u>\$ 7,494,404</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Airport Authority's deposits and investments were reported in the basic financial statements in the following categories:

Cash and Cash Equivalents	\$ 443,083
Investments	<u>443,414</u>
	<u>\$ 886,497</u>

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings accounts, certificates of deposit)	\$ 443,414
Investment in Municipal Investment Account Pooled Funds	442,870
Petty Cash	<u>213</u>
Total	<u>\$ 886,497</u>

Deposits:

Deposits are carried at cost. Deposits of the Airport Authority are held at various banks, in the name of the Airport Authority. At September 30, 2004, the carrying amounts of the Airport Authority's deposits were classified to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 100,000	\$ 100,000
Uninsured - uncollateralized	<u>343,414</u>	<u>343,819</u>
	<u>\$ 443,414</u>	<u>\$ 443,819</u>

Investments:

The Airport Authority has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Airport Authority to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Airport Authority's deposits are in accordance with statutory authority.

The Airport Authority's investments are categorized to give an indication of the level of risk assumed by the Airport Authority at September 30, 2004. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

All investments at September 30, 2004 consisted of the following which are not required to be categorized:

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
National City Bank Municipal Investment Account Pooled Funds	<u>\$ 442,870</u>	<u>\$ 442,870</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended September 30, 2004, was as follows:

	<u>Balance October 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance September 30, 2004</u>
Leasehold improvements	\$ 6,033,309	\$ 1,661,081	\$ 0	\$ 7,694,390
Machinery and equipment	5,234,469	396,964	797,902	4,833,531
Construction in progress	<u>0</u>	<u>42,352</u>	<u>0</u>	<u>42,352</u>
	11,267,778	2,100,397	797,902	12,570,273
Less accumulated depreciation	<u>(4,844,529)</u>	<u>(1,156,545)</u>	<u>(683,916)</u>	<u>(5,317,158)</u>
Net capital assets	<u>\$ 6,423,249</u>	<u>\$ 943,852</u>	<u>\$ 113,986</u>	<u>\$ 7,253,115</u>

Capital assets are stated at cost. Depreciation is calculated using the straight-line basis at the rate of 3.18% to 20% per year. The estimated useful lives are as follows:

Leasehold improvements	15 – 31.5 years
Machinery and equipment	5 – 10 years

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 5 - COMPENSATED ABSENCES PAYABLE

The Airport Authority has an employee benefit plan that allows employees to accumulate sick pay days at the rate of one day per month up to a maximum of 90 days. The Authority also has a vacation pay policy which allows employees to carryover any unused vacation leave and is payable upon separation from employment. The amount of accumulated sick pay and vacation pay liability for the Airport Authority at September 30, 2004 was \$32,145.

The following is a summary of compensated absence transactions of the Airport Authority for the year ended September 30, 2004:

	<u>Compensated Absences</u>
October 1, 2003	\$ 27,073
Additions	<u>5,072*</u>
September 30, 2004	<u>\$ 32,145</u>

(*) Represents net of additions and reductions for the year.

NOTE 6 - RETIREMENT PLAN

The Airport Authority has a non-standardized money purchase pension plan with ING Life Insurance and Annuity Company, a deferred contribution pension plan, effective January 1, 1995 and as amended January 1, 2002. All full time employees are covered under the plan. Eligibility to become a participant is limited to those employees who, on the effective date or on any anniversary date, have completed one year of service and have attained age 21. Vesting is 100% after six years of participation in the plan.

The Airport Authority is required to contribute 10% of the annual compensation of all eligible participants.

During the year, the Airport Authority's required and actual contributions amounted to \$21,328.

No pension provision changes occurred during the year that affected the required contributions to be made by the Airport Authority or its employees. Plan provisions and contribution requirements are established and may be amended by the Airport Authority Board.

NOTE 7 - LEASE

The Airport Authority, through assignment from Oscoda Township except for utilities, has a lease with the United States Air Force for facilities and offices located on the former Wurtsmith Air Force Base, Iosco County, Michigan. The lease term is indefinite and the Authority was not required to pay any rental payments for the year ended September 30, 2004.

OSCODA-WURTSMITH AIRPORT AUTHORITY
Iosco County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended September 30, 2004

NOTE 8 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (1,434,707)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
MDOT costs included in expenses	251,615
Depreciation	1,156,545
Changes in assets and liabilities:	
Decrease in accounts receivable	24,100
Decrease in accounts payable	(21,744)
Increase in compensated absences payable	5,072
Increase in deposits payable	16,288
Increase in deferred revenue	<u>6,876</u>
Net cash provided by operating activities	<u>\$ 4,045</u>

NOTE 9 - RISK MANAGEMENT

The Airport Authority is exposed to various risks of loss related to property loss, torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Airport Authority continues to carry commercial insurance for risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

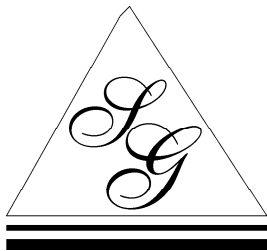
NOTE 10 - SEGMENT INFORMATION

For the year ended September 30, 2004, segment information not included in the financial statements is as follows:

Operating revenue	\$ 621,192
Depreciation expense	\$ 1,156,545
Operating loss	\$ (1,434,707)
Change in net assets	\$ 586,845
Capital asset additions	\$ 2,100,397
Net working capital	\$ 860,279
Total net assets	\$ 8,081,249

NOTE 11 - CONTINGENCIES AND CONTRACTS

The Airport Authority has elected, under the Michigan Employment Security Act, to be a reimbursing employer. In making this election, the Airport Authority has warranted that it will reimburse the State for all benefits paid by the State to qualified individuals for unemployment compensation. No liabilities have been incurred as of September 30, 2004.



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

Alan J Stephenson, CPA
Gerald D Gracik Jr., CPA
James J Gracik, CPA
E. Thad Gray, CPA
Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

November 9, 2004

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

We have audited the financial statements of the business-type activities of the Oscoda-Wurtsmith Airport Authority as of and for the year ended September 30, 2004, which collectively comprise the Oscoda-Wurtsmith Airport Authority's basic financial statements and have issued our report thereon dated November 9, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Oscoda-Wurtsmith Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Oscoda-Wurtsmith Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted two matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Oscoda-Wurtsmith Airport Authority's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described below:

Separation of Duties in the Performance of Functions

The present system of internal controls does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate to account for the financial activity of the Airport Authority, but could be strengthened by a few minor changes in the personnel assigned to perform certain functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
November 9, 2004
Page Two

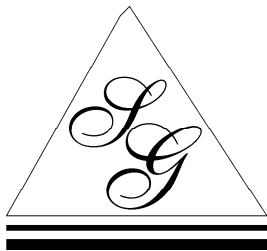
Cash Receipts System

During our audit fieldwork we noted that the Airport Authority does not use prenumbered cash receipts to record cash received. We recommend that the Airport Authority obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Airport Authority.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.



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November 9, 2004

Members of the Authority Board
Oscoda-Wurtsmith Airport Authority
Iosco County, Michigan

Dear Board Members:

We have audited the financial statements of the Oscoda Wurtsmith Airport Authority for the year ended September 30, 2004, and have issued our report thereon dated November 9, 2004. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated February 16, 2000, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

In planning and performing our audit, we considered the Oscoda Wurtsmith Airport Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Oscoda Wurtsmith Airport Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Oscoda Wurtsmith Airport Authority are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Airport Authority changed accounting policies as a result of adopting Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended September 30, 2004. We noted no transactions entered into by the Oscoda Wurtsmith Airport Authority during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Oscoda-Wurtsmith Airport Authority's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Oscoda-Wurtsmith Airport Authority, either individually or in the aggregate, indicate matters that could have a significant effect on the Oscoda-Wurtsmith Airport Authority's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Oscoda-Wurtsmith Airport Authority's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

Separation of Duties in the Performance of Functions

The present system of internal control does not provide for separation of duties in the performance of functions. In our opinion, the system is adequate for the financial activity of the Airport Authority, but could be strengthened by a few minor changes in the personnel assigned to perform cash functions.

We recommend that the cash receipts and cash disbursements functions be handled by different individuals. Cash receiving should be centralized in a person without authority to sign checks, without access to noncash accounting records and not involved in reconciling bank accounts. A different person should prepare checks and reconcile the bank accounts.

Cash Receipts System

During our audit fieldwork we noted that the Airport Authority does not use prenumbered cash receipts to record cash received. We recommend that the Airport Authority obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Airport Authority.

We wish to express our appreciation for the cooperation and courtesies extended our staff by management and employees of the Authority.

This information is intended solely for the use of management, the Authority Board and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grain & Co., P.C.